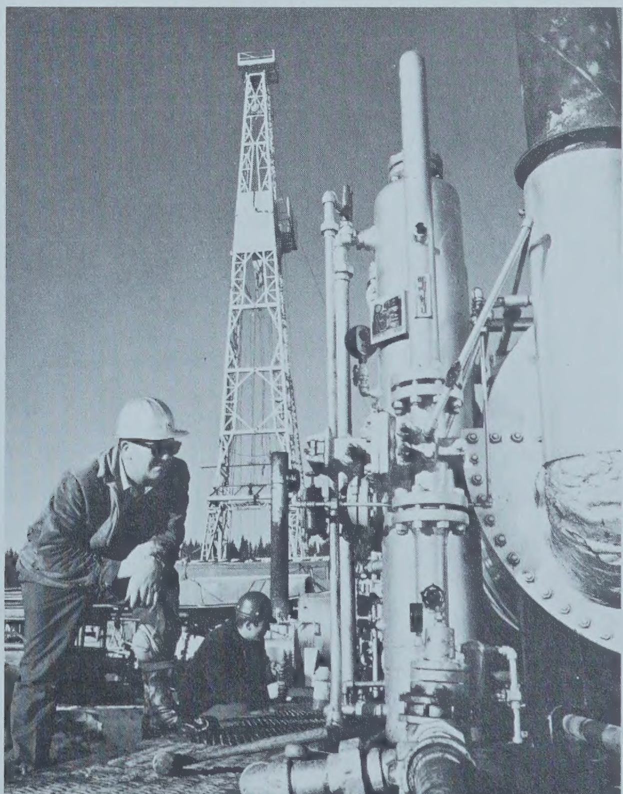
ANNUAL REPORT APRIL 30TH 1969

CANADIAN EXPORT GAS & OIL LTD.

CEGO

Contents



Drilling rig on location at CEGO interest well at Strachan

ANNUAL REPORT 1969

HEAD OFFICE
736 - 8th AVENUE S.W.
CALGARY, ALBERTA

DIRECTORS

AUGUST F. BECK, *Calgary*
President and General Manager of the Company

F. R. BURTON, *Toronto*
President and a Director of Alminex Limited

JOHN DRYBROUGH, *Winnipeg*
Chairman of the Board of Newmont Mining Corporation of Canada Limited

FRANCIS KERNAN, *New York*
A partner of White, Weld & Co.

PLATO MALOZEMOFF, *New York*
Chairman of the Board, President and a Director of Newmont Mining Corporation

MILTON H. MANDEL, *New York*
An Attorney-at-Law

FRANCIS E. RINEHART, *New York*
Counsel, Newmont Mining Corporation

FRANZ SCHNEIDER, *New York*
Financial Consultant

H. W. TRIPP, *New York*
Chairman of the Investment Committee of the University of Rochester

OFFICERS

AUGUST F. BECK, *President and General Manager*

PAUL C. EVANS, *Vice-President — Production*

W. P. HANCOCK, *Vice-President — Exploration*

DEREK N. WALKER, *Secretary-Treasurer*

FRANCIS E. RINEHART, *Assistant Secretary*

SUBSIDIARIES

CANEX GAS LTD.

CEGO MINERALS LTD.

NORTH DAKOTA ROYALTIES LTD.

SHARES LISTED

AMERICAN STOCK EXCHANGE, *New York*

MIDWEST STOCK EXCHANGE, *Chicago*

THE TORONTO STOCK EXCHANGE

TRANSFER AGENTS

CROWN TRUST COMPANY, *Calgary and Toronto*

HARRIS TRUST AND SAVINGS BANK, *Chicago*

BANKERS TRUST COMPANY, *New York*

REGISTRARS

CROWN TRUST COMPANY, *Calgary and Toronto*

AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago*

THE BANK OF NEW YORK, *New York*

AUDITORS

PEAT, MARWICK, MITCHELL & CO., *Calgary*

HIGHLIGHTS

		1968-69	1967-68
PRODUCTION (Net after royalties):			
Oil Production—Annual	Barrels	440,729	443,029
—Daily Average	Barrels	1,207	1,214
Gas Production—Annual . . .	Billion Cubic Feet	6.946	6.562
—Daily Average	Million Cubic Feet	19	18
Sulphur Production—Annual	Long Tons	2,992	–
—Daily Average . .	Long Tons	8	–
EARNINGS:			
Gross operating income less royalties paid:			
Crude oil sales		$ 1,111,213	1,121,155
Natural gas sales		$ 1,082,343	986,878
Royalty income		$ 174,864	182,324
Sulphur sales		$ 51,353	–
		$ 2,419,773	2,290,357
Cash flow from operations		$ 1,244,401	1,024,121
Per share		¢ 15	13
Net earnings		$ 396,010	299,762
Per share		¢ 5	4
EXPLORATION ACTIVITY:			
Exploratory wells drilled (gross):			
Oil		2	–
Gas		3	4
Dry		12	6
		17	10
Expenditure on land acquisition and exploratory surveys		$ 1,469,123	866,072

TO THE SHAREHOLDERS:

Highlights of the past year include successful developments at Strachan, Alberta, acquisition of substantial acreage in the offshore Mackenzie Delta-Beaufort Sea area, and in Hudson Bay. The Company also made its first venture into mining exploration by the acquisition of mineral claims and prospecting permits in the Northwest Territories.

STRACHAN-RICINUS

Participation in the initial discovery of Leduc reef gas in the Strachan area, 100 miles Northwest of Calgary, was noted in the company's last Annual Report. Since that time there have been two additional reef completions on Company acreage, one, a diagonal off-set to the discovery with over 700 feet of excellent reef pay, the other, a mile South of this last well having in excess of 600 feet of comparable pay. These three wells have already proven a very substantial reserve of sulphur and condensate-rich gas in the Leduc reef under the lands on which they were drilled.

CEGO and certain of its associates have executed a gas purchase contract with Trans Canada Pipe Lines Ltd., covering a 52,000 acre block in which the Company has a 6¼% interest. The contract calls for sale of reserves when developed of up to 1.5 trillion cubic feet over the next twenty-five years, on a take or pay basis, commencing on or before November 1, 1970. The contract further provides for sale of all additional reserves on the same basis, as and if they are discovered. The initial price is 15.5 cents per thousand cubic feet, escalating to 21 cents per thousand cubic feet over the life of the contract. The Company is also participating on the same interest basis in the construction of a gas condensate and sulphur extraction plant. The design work has already been initiated.

Other encouraging developments have occurred in the area. A recent Leduc reef gas discovery by another operator near Ricinus, 15 miles South and East of the initial discovery, indicates a sizeable area of potential reserves from this zone. In addition, condensate-rich gas has been discovered in another zone, the Cardium, which is under development in other parts of the area. CEGO is participating in a well currently production testing this formation. A third zone, the Wabamun, has revealed possibility of commercial sulphur gas in at least one CEGO-interest well.

The Company is currently participating in three additional exploratory wells from one to six miles beyond the presently proven area of reef development, to evaluate further the 52,000 acre block. (See map). CEGO to date has invested almost one million dollars covering its share of drilling and land acquisitions.

It is premature to attempt to make any firm evaluation of this area at this time, since the full potential of its multi-zone indications will have to await the results of the present and future exploratory drilling. However, all of the above developments indicate that CEGO's interest in this area may well prove to be most important and will have, in any event, a significant effect on the Company's future earnings.

LAND

Early last year a major oil discovery was made at Prudhoe Bay on the north slope of Alaska. This accelerated an existing land play in both the United States and Canadian portions of the Arctic. Canadian Export acquired a 50% interest in 824,638 acres of Exploratory Permits located offshore in the Beaufort Sea and Liverpool Bay areas of the Canadian Arctic.

Another focal point for oil exploration is Hudson Bay, in which another operator has announced that a well will be drilled this summer. CEGO has filed on 2,052,000 acres in Hudson Bay, and since the year end has farmed out half of its interest for cash and work obligations.

MINERAL EXPLORATION

Diversification into mineral exploration has been winning favour with oil companies during recent years. Canadian Export has been investigating various possibilities and took initial steps into this field during the past year. Acreage was acquired in the Artillery Lake and Baker Lake areas of the Northwest Territories. (See map).

DRILLING

During the year the Company participated in the drilling of 16 development wells, 15 of which were completed as producing wells.

Seventeen exploratory wells were drilled, resulting in three successful gas and two oil wells. Of the 12 dry holes, five were drilled at no cost to the Company.

PRODUCTION

Gas production increased by 6% in 1969, and oil production remained about the same as in 1968. For the first time the Company had significant income from sulphur sales netting the Company approximately $50,000.

The Company can expect an increase of about 10% in its gas sales next year. This will result primarily from an upward revision in Trans Canada Pipe Lines gas purchase formula from several of the company's fields.

FINANCIAL

The Company had a successful year financially, with gross operating income increasing 6% to $2,420,000, and cash flow increasing 22% to $1,244,000. Net earnings were $396,000 compared with $300,000 last year.

BLUEWATER

The Company completed the sale of its 61% interest in Bluewater Oil & Gas Ltd. at the end of the fiscal year. Its 1,761,150 shares were sold to Mr. Spelman Prentice and his associates for 10c per share.

Bluewater's debt to Canadian Export amounting to $300,000 has been secured by Bluewater issuing debentures for this amount, redeemable after five years. These debentures are convertible to common shares in the first five years, thus giving CEGO an option to participate in any Bluewater success.

GENERAL

The apparently very significant and huge discovery in Prudhoe Bay on the northern slope of Alaska supports previous theories of large reserves in the Beaufort Sea and the Canadian Arctic. It has also opened up problems in respect to marketing to both United States and Canada. This discovery and its implications will bring into sharper focus for investigation by both the United States and Canadian governments the problems being generated in Eastern Canada and Northeastern U.S. by the construction and projected construction of extensive refining capacity, all based on the use of overseas crude oil.

For the longer term there are many factors which politically and economically, could have a bearing on the future production of Canadian oil and gas. However a tremendous increase is projected in the Continental demand for energy, the bulk of which will be supplied by oil and gas. With the continuing decrease in the production-to-reserve life index ratio of oil and gas in the U.S. it is irrational to believe that a joint policy of co-operation cannot be successfully implemented by industry and government on both sides of the border which will recognize the acute need of the U.S. for Canadian gas and Canada's need for a favourable market for its oil. Such co-operation would result in providing the necessary incentive to continue the exploration and development so that this Continent will never have to be completely dependent on foreign sources of energy.

The Company has experienced another successful year; this is largely due to the co-operation and dedication of the employees—both in the field and in the office. On behalf of the Directors and management I would like to extend our most sincere gratitude for the efforts of all employees.

On behalf of the Board,

A. F. Beck

A. F. BECK
President

June 30, 1969

Net Gas Production by Fields

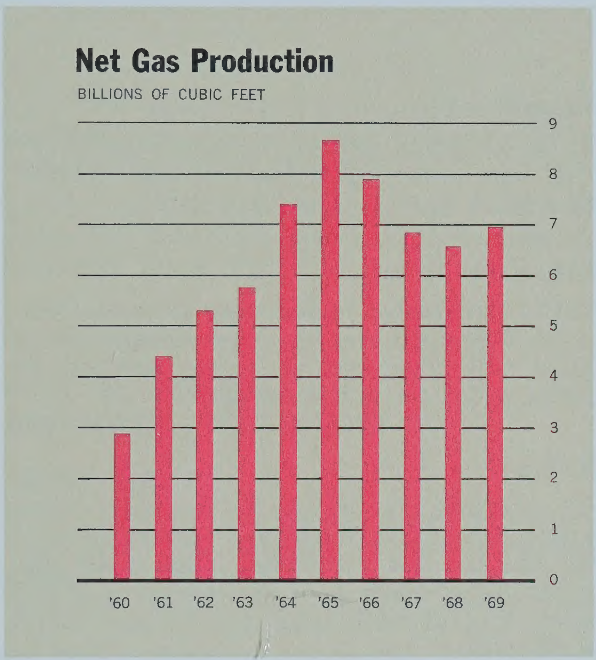
(After Royalties)

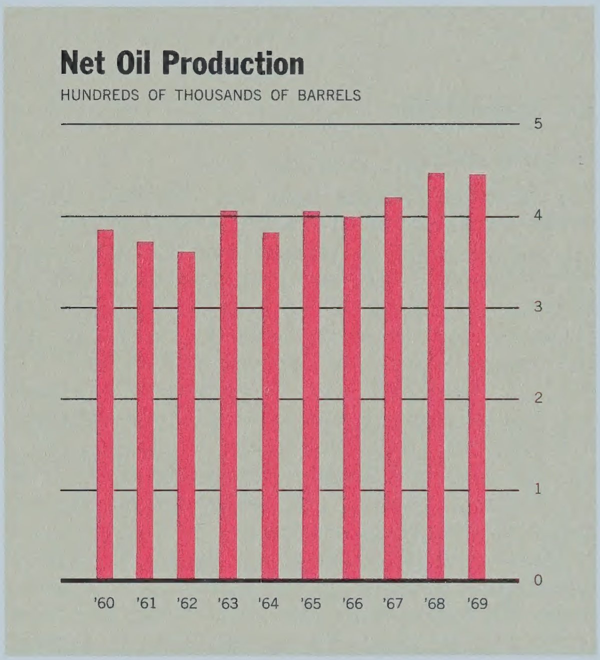
	(Billion Cubic Feet)				
	1969	1968	1967	1966	1965
Steveville	2.065	2.115	2.124	3.000	3.762
Bindloss	1.731	1.706	1.769	1.742	2.003
Hilda	1.703	1.395	1.501	1.500	1.515
Sedalia	0.392	0.348	0.398	0.422	0.433
Wood River	0.348	0.276	0.277	0.239	0.312
Atlee-Buffalo-Jenner	0.287	0.289	0.321	0.337	0.331
Ghost Pine	0.160	0.071	—	—	—
Countess Duchess	0.104	0.109	0.118	0.128	0.133
East Crossfield D-1	0.070	0.019	—	—	—
Braeburn (Saddle Hills)	0.047	0.097	0.218	0.211	0.046
Crossfield-Turner Valley	0.039	0.038	0.026	0.022	0.023
Ontario	—	0.099	0.115	0.114	—
Other Areas	—	—	—	0.140	0.152
	6.946	6.562	6.867	7.945	8.710

Net Oil Production by Fields

(After Royalties)

	(Net Barrels)				
	1969	1968	1967	1966	1965
Virden-Roselea, Man.	161,962	148,192	150,444	108,147	99,570
Florence-Carnduff, Sask.	71,352	79,479	90,964	103,055	120,011
Swan Hills, Alberta	70,140	57,734	28,378	1,258	—
Big Valley, Alberta	30,681	35,704	29,859	25,214	30,241
Crossfield, Alberta	30,635	37,947	36,682	52,792	81,688
Virginia Hills, Alberta	22,753	17,823	9,865	11,371	10,269
Northgate, Sask.	14,923	22,536	30,840	49,929	40,385
Manyberries, Alberta	10,798	12,483	12,575	13,924	14,587
Wood River, Alberta	5,532	6,178	7,011	7,459	5,352
Browning-Willmar, Sask.	4,308	11,211	13,553	13,976	—
Swalwell, Alberta	1,710	2,295	1,909	2,490	3,596
Willey, Ontario	—	5,195	8,967	8,276	—
Other Areas	15,935	6,252	4,643	5,992	8,412
	440,729	443,029	425,690	403,883	414,111





GAS PRODUCTION

CEGO's net gas production for the past year increased by 6% to 6.946 billion cubic feet.

Eight development wells were drilled and completed as gas wells in the Hilda area of the Medicine Hat gas field, four in the Bindloss field, and one gas producer and one dry hole in the Sedalia field.

Additional development drilling is planned for the coming year, together with installation of compressors, to meet the increased requirements of Trans Canada's new delivery formula.

The Kaybob South Gas Unit No. 1 and the Ghost Pine Unit No. 1 have now solved their inherent start up problems and are operating satisfactorily.

OIL PRODUCTION

During the past year CEGO's net oil production was 440,729 barrels, about the same as last year. The Zama and Virgo discovery wells are now on production after overcoming some initial completion and access problems. A new oil producer (4-28-68-11-W5) was completed during the fourth quarter in the Swan Hills House Mountain Secondary Recovery Unit No. 4. This water flood project is reacting most favourably.

SULPHUR PRODUCTION

For the first time CEGO's sulphur production bears some significance to the Company's total operations. Production for the year was 2,992 long tons, mostly from the East Crossfield D-1 unit.

EXPLORATION

Strachan-Ricinus

The Strachan-Ricinus area has emerged during the past year as one of the major sulphur and wet gas accumulations in Western Canada. The Company's land interests and participation in drilling activities are shown on the map on page 20. The Devonian reef discovery well was noted in the last annual report. A step out well in Lsd. 11, Sec. 27, Twp. 37, Rge. 9, penetrated a record 700 feet of reef gas pay. To the south a shallow Cardium test 16-26-36-9 found condensate-bearing gas and is currently production testing. A development location 11-22-37-9 drilling at year end, has since been completed as a Leduc reef producer and in addition has discovered gas in commercial amounts in the Devonian Wabamun zone. A wildcat test 3½ miles north and west of the original discovery was abandoned. Present plans are for the drilling of at least three exploratory reefs tests during the next year. The Company has a net interest of 6¼% in 52,480 acres in this area.

Northwestern Alberta

This past year saw completion of all initial obligations by the various farmees on the 1½ million acres of reservation lands in Northwestern Alberta which the Company farmed out in 1965. Since that time 15 wells have been drilled, and some 1,400 miles of seismic surveys carried out on these lands at no cost to the Company. CEGO at its option, may participate in further activity on these lands. In certain areas this stage was reached during the past year and the Company participated in the drilling of one dry hole and seismic surveys in two other areas. In the coming year some further seismic and possible drilling is planned on parts of these lands.

Zama-Virgo

In the Zama-Virgo area two wells were drilled resulting in discovery of two Keg River oil pools. The CEGO et al Zama 9-3-117-6 well, in which the Company has a 22.5% interest, was completed with 175 feet of net reef pay. CEGO et al Virgo 4-23-115-6 (26⅔% interest) had 75 feet of reef pay.

Fairacres

In the Fairacres area of Northern Alberta two wells were drilled and abandoned under farmout agreements at no cost to the Company.

Whitecourt

CEGO participated in two deep Devonian tests in the Whitecourt area of central Alberta both of which were abandoned. A further well may be drilled during the next fiscal year.

Hutton

The Company as operator for a group, drilled three wells in the Hutton area of Southern Alberta. All were dry and abandoned. These wells have earned the company a 17.5% interest in 28,160 acres. An exploratory program is being continued in this area.

Flatrock

A 4% interest is held in a gas discovery in the Flatrock area of Northeastern British Columbia. A like interest in 7,680 acres of Drilling Reservation was added to our existing lands in this area.

Mackenzie Delta-Beaufort Sea

Developments on the North Slope of Alaska, renewed drilling activity in the Mackenzie Delta area, and the start of the Panarctic drilling program on the Arctic Islands, have all contributed to the unprecedented activity and interest in the entire North American Arctic. In July of 1968 the company purchased a 50% interest in 824,638 acres of Exploratory Permits in the Beaufort Sea and Liverpool Bay areas. (Map). Seismic information has been acquired on parts of the holdings, and further coverage will be obtained based on a study of existing data when equipment becomes available to undertake a program.

Hudson Bay

In Hudson Bay the Company filed on 2,052,000 acres of Petroleum and Natural Gas permits. Subsequent to the year end CEGO has farmed

out a 50% interest for a cash consideration and an undertaking by the farmee to carry out the first three years work obligations.

Another operator has announced that it plans to drill a well during the current summer season on its acreage in the Bay. (See map).

MINERAL EXPLORATION — NORTHWEST TERRITORIES

Artillery Lake

In the Artillery Lake area northeast of Yellowknife, N.W.T. the Company acquired 88 Mineral Claims (approximately 4,500 acres). These have since been farmed out to a major mining company which is presently carrying out initial geophysical and geological studies.

Baker Lake

The Company has a one-third interest in three Prospecting Permits totalling 494,205 acres in the Baker Lake area, Keewatin district, N.W.T. Initial air and ground geophysical surveys will be carried out this summer.

LAND

Acquisitions of petroleum and natural gas interests in the offshore Arctic and Hudson Bay area and of the mineral interests in two areas of the Northwest Territories greatly increased your Company's land position. After farming out half of its Hudson Bay acreage since the year end the Company's net position of 2,237,000 acres is three times that of one year ago. Perhaps of most immediate significance to the Company are additional land acquisitions in the Strachan area. Here, following developments in which CEGO participated, record land prices have been paid at Government land sales. New acquisitions include a 12,800 acre Drilling Reservation and 3,200 acres of P & NG leases in which CEGO has a 6¼% interest.

LAND AND ROYALTY HOLDINGS

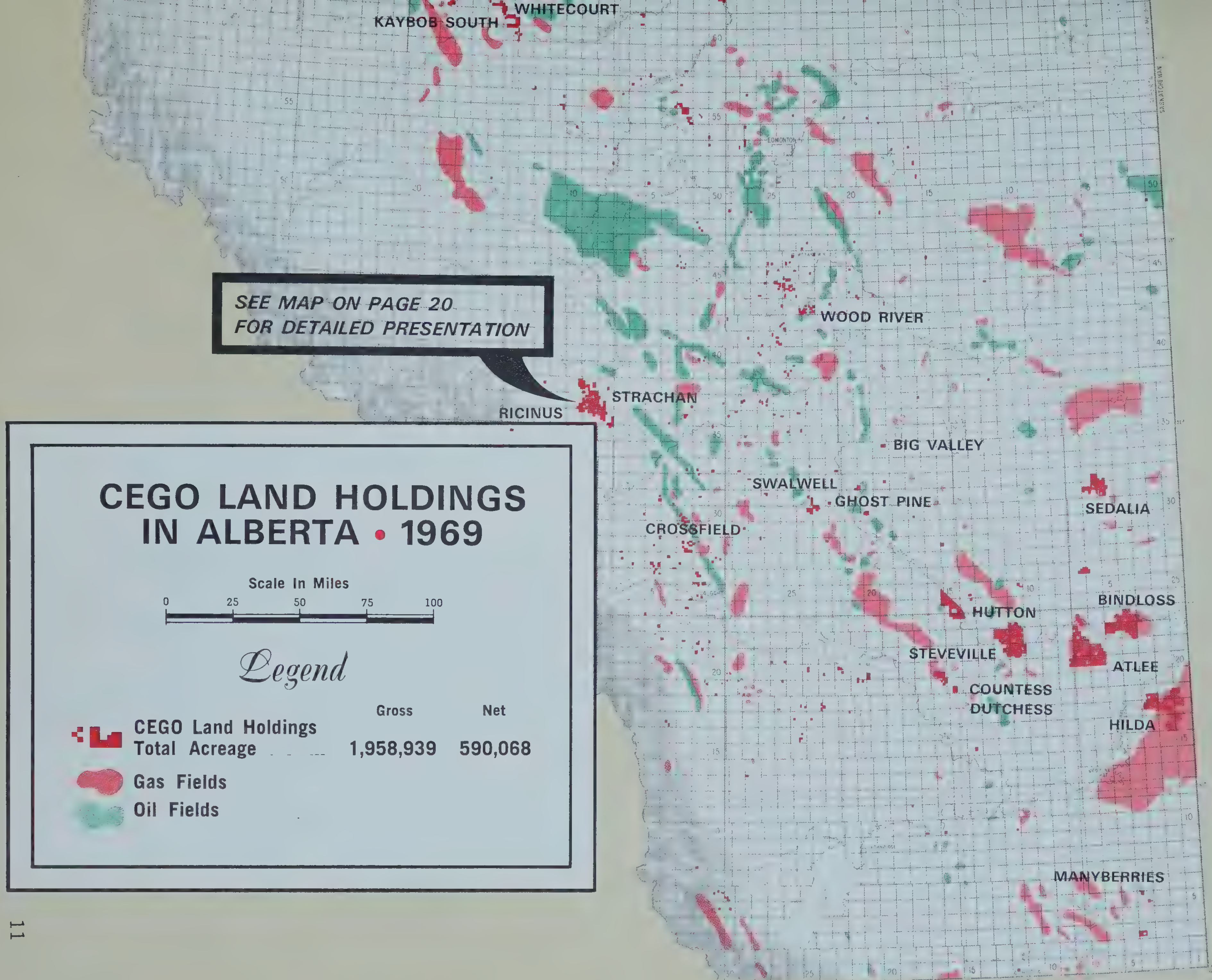
As at April 30th, 1969

	Gross	Net
Alberta	1,958,939	590,068
Saskatchewan	13,702	9,432
Manitoba	1,370	1,370
British Columbia	15,221	1,980
Hudson's Bay	2,052,430	2,052,430
Northwest Territories	824,638	412,319
Northwest Territories (Mining)	498,750	196,280
	5,365,050	3,263,879

ROYALTY INTERESTS

	GROSS ACRES	ROYALTY INTEREST
Alberta:	640	15%
	11,835	Varying Interests to 2½%
Total Alberta	12,475	
Saskatchewan:	166,161	2½%
	6,600	Varying Interests
	12,360	Mineral Titles
Total Saskatchewan	185,121	
Manitoba:	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba	8,173	
Northwest Territories:	84,549	0.34%
Total Royalty and Mineral Interests	290,318	


ZAMA
VIRGO
FAIRACRES
BRAEBURN
SWAN HILLS
VIRGINIA HILLS

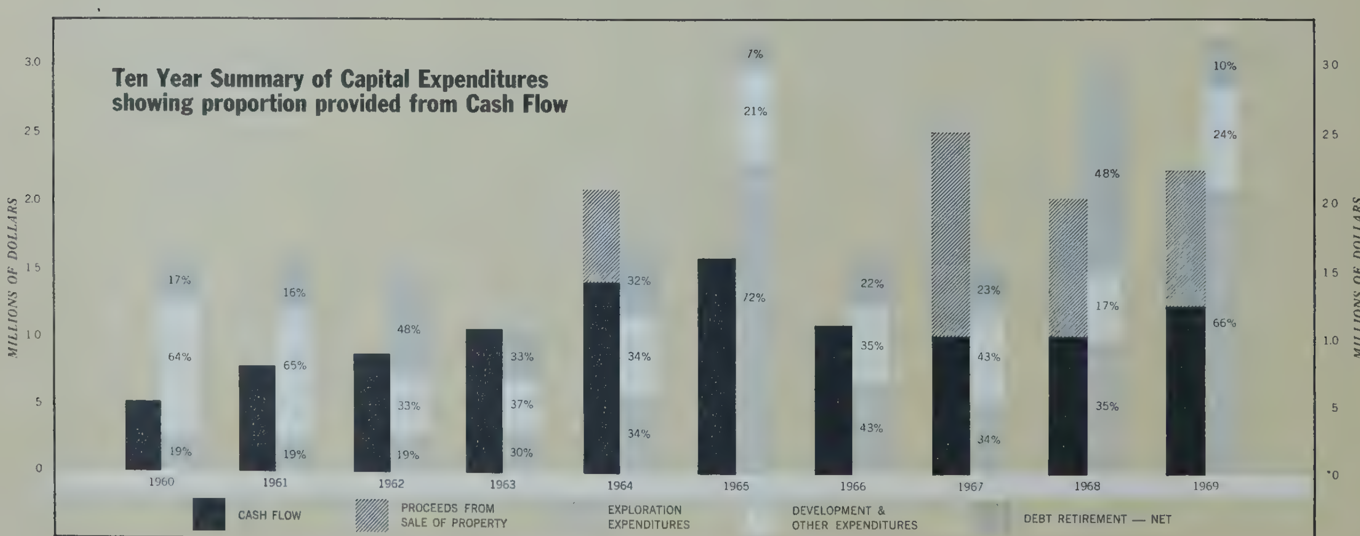

CEGO LAND HOLDINGS
IN ALBERTA • 1969
Scale In Miles
0 25 50 75 100
Legend
Gross Net
CEGO Land Holdings
Total Acreage 1,958,939 590,068
Gas Fields
Oil Fields
SEE MAP ON PAGE 20
FOR DETAILED PRESENTATION
KAYBOB SOUTH
WHITECOURT
WOOD RIVER
STRACHAN
RICINUS
BIG VALLEY
SWALWELL
GHOST PINE
CROSSFIELD
SEDALIA
BINDLOSS
HUTTON
STEVEVILLE
ATLEE
COUNTESS
DUTCHESS
HILDA
MANYBERRIES

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1969
(with comparative figures for 1968)

		1969		1968
SOURCE OF FUNDS:				
Cash flow from operations (Net earnings plus provisions, bond discount, dry holes and abandoned properties)		$1,244,401		1,024,121
Proceeds from sale of properties		1,000,000		1,000,000
Proceeds from sale of capital stock		522,460		417,929
Proceeds from sale of subsidiary		176,115		–
Reduction of working capital		229,844		468,801
TOTAL FUNDS EMPLOYED		$3,172,820		2,910,851
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	46%	$1,469,123	30%	866,072
Wildcat and stepout drilling	14	434,819	5	142,813
Increase in reservation deposits	6	192,161	–	–
Development and Other Expenditures:				
Drilling and equipment of wells	12	371,356	10	303,572
Gas gathering systems, plants and miscellaneous (net)	12	369,661	7	190,833
FUNDS INVESTED IN THE COMPANY	90	2,837,120	52	1,503,290
Long-Term Debt Reduction:				
Companies' sinking fund debentures	8	254,500	11	326,000
Bank loans and 6% notes payable (net)	2	81,200	37	1,081,561
TOTAL FUNDS USED	100%	$3,172,820	100%	2,910,851

See accompanying notes to financial statements.



CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended April 30, 1969
(with comparative figures for 1968)

		1969	1968
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$ 2,193,556	2,108,033
Royalty income		174,864	182,324
Sulphur sales		51,353	–
		2,419,773	2,290,357
Less production expenses		540,094	538,366
		1,879,679	1,751,991
Deduct administrative and general expenses, net		252,267	281,483
Net operating profit before depletion and depreciation		1,627,412	1,470,508
OTHER CHARGES, NET:			
Share transfer and other shareholder expenses	$ 73,372		109,827
Acreage rentals on non-producing properties	221,199		190,035
Interest on debentures	39,011		52,548
Interest, other	95,000		120,607
Amortization of bond discount	10,000		10,000
Dry holes and abandoned properties	317,466		157,617
	756,048		640,634
Deduct miscellaneous income	45,571		26,630
		710,477	614,004
Net earnings before the following provisions		916,935	856,504
PROVISIONS:			
Depletion and amortization	275,340		313,632
Depreciation	245,585		243,110
		520,925	556,742
Net earnings (Note 7)		396,010	299,762
RETAINED EARNINGS at beginning of year		4,528,060	4,228,298
ADJUSTMENT resulting from sale of subsidiary company (Note 1)		195,301	–
RETAINED EARNINGS at end of year		$ 5,119,371	4,528,060

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

April 30, 1969

(with comparative figures for 1968)

Assets

		1969	1968
CURRENT ASSETS:			
Cash		$ 89,264	110,332
Accounts receivable		2,028,896	1,553,123
Marketable securities, at cost (quoted market value $80,400; 1968, $232,710)		49,047	229,447
Inventories of equipment, at the lower of cost or net realizable value		53,614	59,710
Total current assets		2,220,821	1,952,612
ACCOUNT RECEIVABLE not due within one year		500,000	1,500,000
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 1)		450,011	103,705
FIXED ASSETS, at cost:			
Productive properties and equipment	$12,203,851		11,667,114
Other assets	108,439		108,730
	12,312,290		11,775,844
Less accumulated depreciation, depletion and amortization	5,783,785		5,579,829
	6,528,505		6,196,015
Undeveloped properties	4,095,923		2,725,643
		10,624,428	8,921,658
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,630,744		1,661,905
Bond discount	18,333		28,333
		1,649,077	1,690,238
		$15,444,337	14,168,213

See accompanying notes to financial statements.

Liabilities

		1969	1968
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 730,631	447,549
Accrued debenture interest		13,536	16,593
Payments required for debenture sinking funds (Note 4)		160,581	142,553
Bank loans due within one year (secured) (Note 2)		681,200	481,200
6% notes payable due within one year (secured) (Note 3)		100,000	100,000
Total current liabilities		1,685,948	1,187,895
BANK LOANS, net of current portion (secured) (Note 2)		498,500	479,700
6% NOTES PAYABLE, net of current portion (secured) (Note 3)		–	100,000
FUNDED DEBT (Note 4)		452,500	707,000
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 4 and 5): Shares of a par value of 16⅔ cents each. Authorized 12,000,000 shares; issued 8,141,944 shares (1968, 8,059,944 shares)	$ 1,356,991		1,343,324
Contributed surplus	6,331,027		5,822,234
	7,688,018		7,165,558
Retained earnings	5,119,371		4,528,060
		12,807,389	11,693,618
		$15,444,337	14,168,213

Approved on behalf of the Board:

AUGUST F. BECK, Director

FRANCIS E. RINEHART, Director

NOTES TO FINANCIAL STATEMENTS

April 30, 1969

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries as at April 30, 1969. All intercompany accounts and transactions have been eliminated in consolidation. On April 28, 1969 the company sold its investment in shares of a subsidiary company, Bluewater Oil & Gas Limited. The results of operations of that company are not material and therefore have not been included in the accompanying consolidated statement of earnings for the year ended April 30, 1969. As a result of this sale $195,301 has been credited to retained earnings being the accumulated losses of that subsidiary to April 30, 1968.

In settlement of current advances the company has received from the former subsidiary a convertible floating charge debenture in the amount of $300,000 which is included in the accompanying balance sheet under Refundable deposits and investments at the net cost of $159,108.

From the date of incorporation, March 22, 1954, to June 30, 1957 the activities of the subsidiary company, Canex Gas Ltd., were in an exploratory and development stage and all exploration and preproduction expenditures less miscellaneous income received were deferred and are being amortized by a unit of production method based on the estimated recoverable gas reserves of the company at June 30, 1957. Capital expenditures of Canex Gas Ltd. are included in the accompanying consolidated balance sheet in the appropriate classifications under fixed assets.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $681,200 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. 6% NOTES PAYABLE:

The 6% notes payable in the amount of $100,000 are repayable on February 1, 1970. Certain shares of a wholly owned subsidiary company are pledged as security for these notes.

4. FUNDED DEBT:

Funded debt consists of 5% Convertible Sinking Fund Debentures, Series A, of which the parent company has $241,500 principal amount outstanding, maturing December 1, 1970, and Canex Gas Ltd. has $211,000 principal amount outstanding, maturing July 15, 1971. The funded debt of $452,500 is net of $109,419 held in sinking fund account and $160,581 included in current liabilities.

Series A debentures of the parent company are convertible into shares of the capital stock of the company at the option of the holders at the rate of 33 shares per $500 debenture until their maturity date. Series A debentures of Canex Gas Ltd. are convertible into shares of that company at the rate of 40 shares per $500 debenture until their maturity date. During the year ended April 30, 1969, 6,480 shares of Canex Gas Ltd. were issued upon the conversion of debentures.

The Series A debentures are redeemable out of the sinking funds and otherwise than out of the sinking funds at premiums varying with the date of redemption.

5. CAPITAL STOCK:

During the year the company issued 60,000 shares of its capital stock in exchange for a 50% working interest in certain undeveloped properties. In addition, the company issued 5,800 shares to four employees upon exercise of restricted stock options granted in prior years and issued 16,200 shares of its capital stock under an offer it had made to accept shares of Canex Gas Ltd. that may be issued as a result of converting that company's debentures, and issue 2½ company shares for each Canex Gas Ltd. share tendered. Details of shares issued are as follows:

Number of shares		Total	Allocation of Consideration: Capital stock	Allocation of Consideration: Contributed surplus
60,000	for a 50% working interest in certain undeveloped properties	$420,000	10,000	410,000
5,800	to employees for $3.70 cash per share	21,460	966	20,494
16,200	for 6,480 shares of Canex Gas Ltd. which had been issued upon conversion of $81,000 principal amount of Canex Gas Ltd. debentures	81,000	2,701	78,299
82,000		$522,460	13,667	508,793

The company has reserved the following shares of its capital stock:

49,900	shares in respect of the offer to accept shares of Canex Gas Ltd.
32,835	shares for exercise of the conversion privilege attaching to the company's 5% Convertible Sinking Fund Debentures.
43,400	shares for stock options to employees.
126,135	

NOTES TO FINANCIAL STATEMENTS — Continued

5. CAPITAL STOCK—Continued

The following restricted stock options granted to eight employees were outstanding at April 30, 1969:

		Expiry date
5,000	shares at $1.53 per share (exercisable one-fifth each year commencing February 10, 1966 on a cumulative basis)	June 8, 1970
20,400	shares at $3.70 per share (exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis)	December 20, 1971
18,000	shares at $7.15 per share (exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis)	May 31, 1973

The trust indenture securing the company's 5% Convertible Sinking Fund Debentures, Series A, places a restriction upon the payment of dividends and upon the redemption or repayment of capital stock.

6. REMUNERATION TO DIRECTORS AND SENIOR OFFICERS:

Remuneration during the year to directors and senior officers amounted to $123,183 (1968 $121,438).

7. INCOME TAXES:

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. For the year under review, the capital cost allowances claimed are not significantly different from the depreciation provided in the accounts.

Drilling, exploration and lease acquisition costs in excess of taxable income may be carried forward and applied against earnings in future years. At April 30, 1969, no income taxes were payable and the companies were entitled to carry forward expenditures estimated to be as follows:

Drilling, exploration and lease acquisition costs	$3,645,000
Capital cost allowances	$1,916,000

The drilling, exploration and lease acquisition costs which may, for income tax purposes, be applied against earnings in future years are subject to a reduction from the payment of an account receivable of $1,500,000 which arose from sale of property, and will be included in income for tax purposes as received.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended that the income tax allocation method of accounting should be adopted whereby a provision is made for income taxes based on the earnings reported in the accounts. However, management does not believe it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs, insofar as it presently intends to continue to incur such expenditures and therefore it is not possible to estimate when income taxes will be payable. This view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $143,100 ($111,500 in 1968) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $1,820,100 at April 30, 1969.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and Subsidiaries as of April 30, 1969 and the consolidated statements of earnings and retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1969 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
June 30, 1969

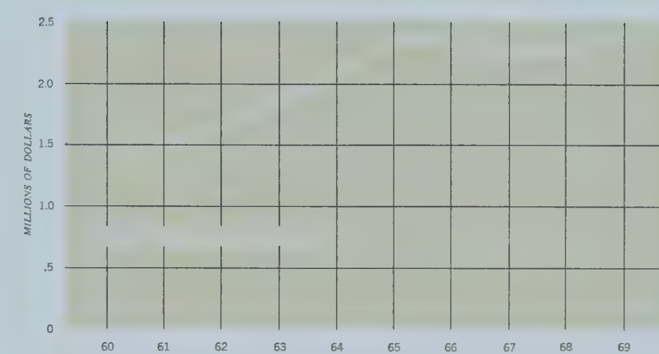
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

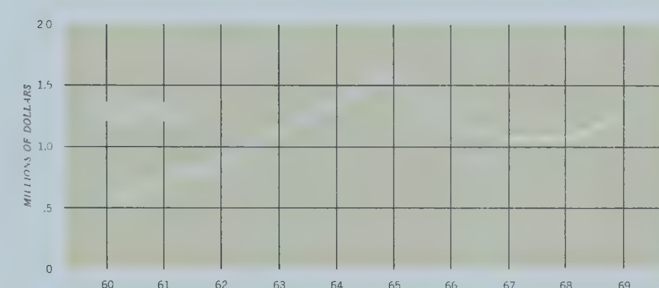
TEN YEAR STATISTICAL SUMMARY / 60-69

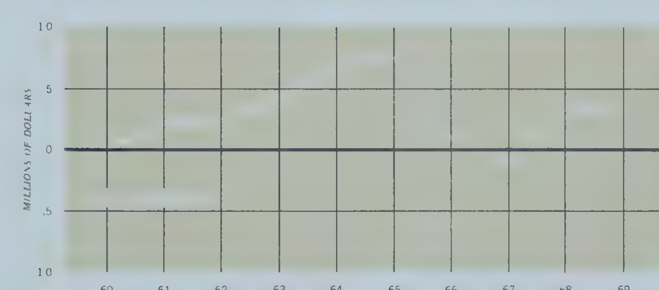
(Years ended April 30)

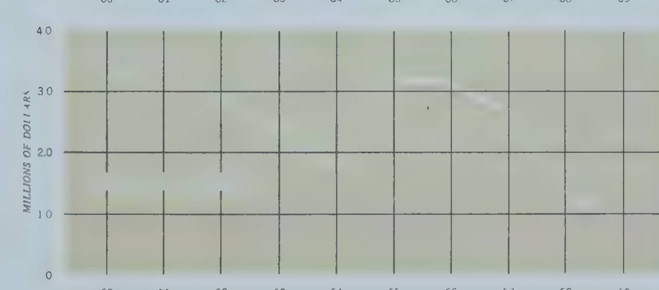
		1969	1968	1967	1966	1965
PRODUCTION:						
Oil—Annual	Barrels	440,729	443,029	425,690	403,883	414,111
Daily Average	Barrels	1,207	1,214	1,166	1,107	1,135
Gas—Annual	Billion Cubic Feet	6.946	6.562	6.867	7.945	8.71[illegible]
Daily Average	Million Cubic Feet	19	18	19	22	24
EARNINGS:						
Gross operating income, less royalties paid	$	2,419,773	2,290,357	2,259,347	2,336,721	2,397,468
Net operating profit before depletion and depreciation	$	1,627,412	1,470,508	1,497,087	1,595,211	1,824,217
Cash flow from operations	$	1,244,401	1,024,121	1,018,319	1,172,273	1,588,082
Net earnings before depletion and depreciation	$	916,935	856,504	493,435	664,345	1,343,831
Net earnings (loss)	$	396,010	299,762	(98,425)	26,455	817,689
OPERATING EXPENSES:						
Production expenses	$	540,094	538,366	498,308	518,189	437,688
Administrative and general expenses	$	252,267	281,483	263,952	223,321	135,563
Total	$	792,361	819,849	762,260	741,510	573,251
CAPITAL STRUCTURE:						
Shareholders' equity	$	12,807,389	11,693,618	10,975,927	7,249,887	7,281,418
Funded debt	$	452,500	707,000	1,033,000	1,284,500	1,534,500
Bank and other loans	$	498,500	579,700	1,661,261	1,767,561	1,667,161
(Working capital) or deficit	$	(534,873)	(764,717)	(1,233,518)	134,690	195,798
Total capital invested	$	13,223,516	12,215,601	12,436,670	10,436,638	10,678,877
Number of shares outstanding		8,141,944	8,059,944	7,919,769	7,828,394	7,828,394
SIGNIFICANT RATIOS:						
Ratio of net earnings to gross earnings	%	16	13	—	1	34
Cash flow return on capital invested	%	9	8	8	11	15
Net earnings return on capital invested	%	3	3	—	—	8
Ratio of shareholders' equity to total capital invested	%	97	96	88	69	68
Ratio of operating expenses to gross earnings	%	33	36	34	32	24
Net book value of assets	Per share	$1.62	$1.52	$1.57	$1.33	$1.36
Cash flow	Per share	15¢	13¢	13¢	15¢	20
Net earnings	Per share	5¢	4¢	—	—	10
WELLS:						
Oil wells (net)		74	73	73	70	66
Gas wells (net)		75	66	65	87	77
Royalty interest wells (gross)		223	223	220	216	214
LAND HOLDINGS:						
Gross acreage		5,365,050	2,158,546	2,221,383	2,698,346	2,831,728
Net acreage		3,263,879	702,530	1,104,868	2,042,318	2,227,392
OWNERS AND EMPLOYEES:						
Number of shareholders		9,134	8,992	8,586	7,790	5,022
Number of employees		33	33	33	37	38

1964	1963	1962	1961	1960
382,515	414,404	360,027	381,717	380,078
1,048	1,135	986	1,046	1,041
7.466	5.752	5.523	4.397	2.917
20	16	15	12	8
2,101,979	1,915,433	1,693,754	1,538,581	1,327,713
1,569,039	1,338,239	1,112,679	1,077,870	804,679
1,395,376	1,126,147	883,660	792,359	524,987
1,180,079	990,145	782,814	703,635	435,498
677,988	487,516	266,601	222,658	28,747
400,836	418,107	377,353	303,212	307,087
132,104	159,087	203,722	157,499	215,947
532,940	577,194	581,075	460,711	523,034
6,463,729	5,243,282	4,755,766	4,175,977	3,466,287
1,784,500	2,032,745	2,279,150	2,509,500	2,784,500
226,000	536,711	712,111	1,136,211	325,800
27,848	384,860	417,561	428,051	1,080,986
8,502,077	8,197,598	8,164,588	8,249,739	7,657,573
7,828,394	7,828,394	7,828,394	7,628,394	7,428,394
32	25	16	14	2
16	14	11	10	7
8	6	3	3	—
76	64	58	51	45
25	30	34	30	39
$1.09	$1.05	$1.04	$1.08	$1.03
18¢	14¢	11¢	10¢	7¢
9¢	6¢	3¢	3¢	—
61	61	64	63	65
75	77	73	68	51
214	205	200	166	179
893,331	4,335,811	4,339,891	4,373,945	4,914,210
306,901	324,128	322,845	316,645	424,306
5,250	5,521	5,413	5,024	4,879
32	31	35	41	38

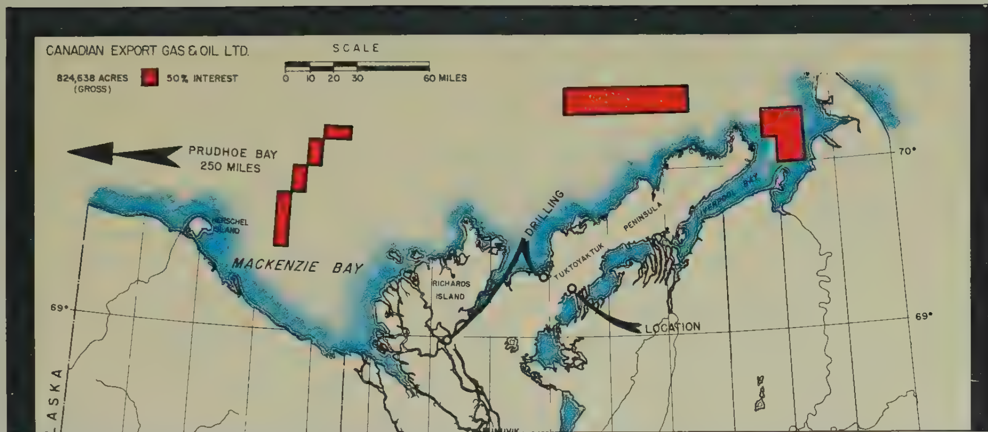




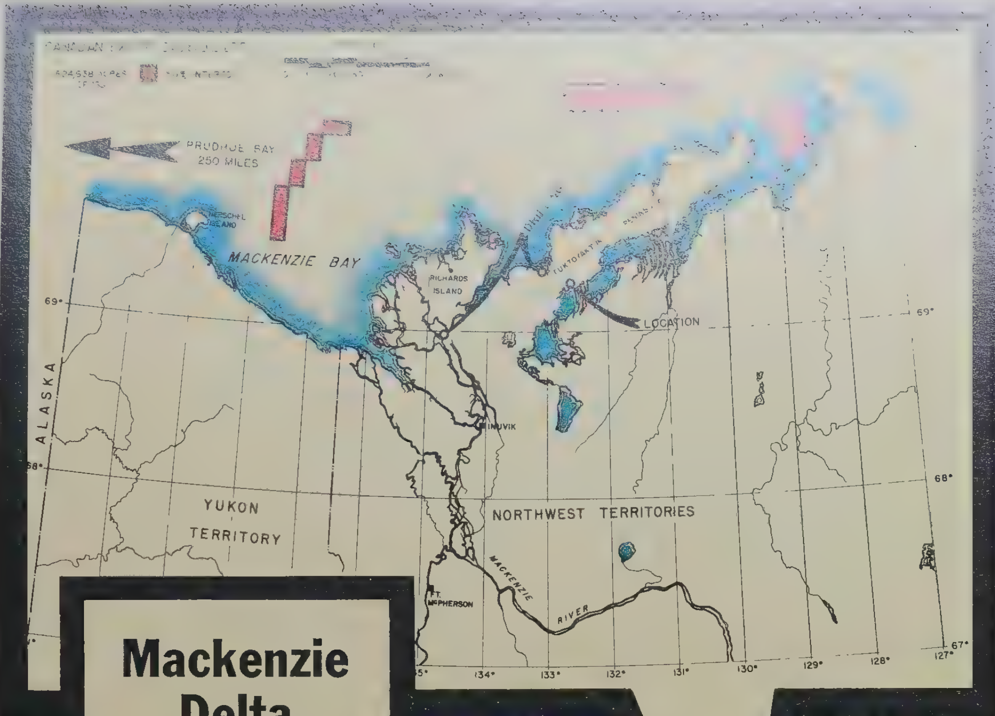




Strachan-Ricinus Area, Alberta


CANADIAN EXPORT GAS & OIL LTD.
SCALE
0 10 20 30 60 MILES
824,638 ACRES (GROSS)
50% INTEREST
PRUDHOE BAY
250 MILES
MACKENZIE BAY
RICHARDS ISLAND
DRILLING
TUKTOYAKTUK
PENINSULA
LOCATION
70°
69°
ASKA

Baker Lake



Mackenzie Delta Area

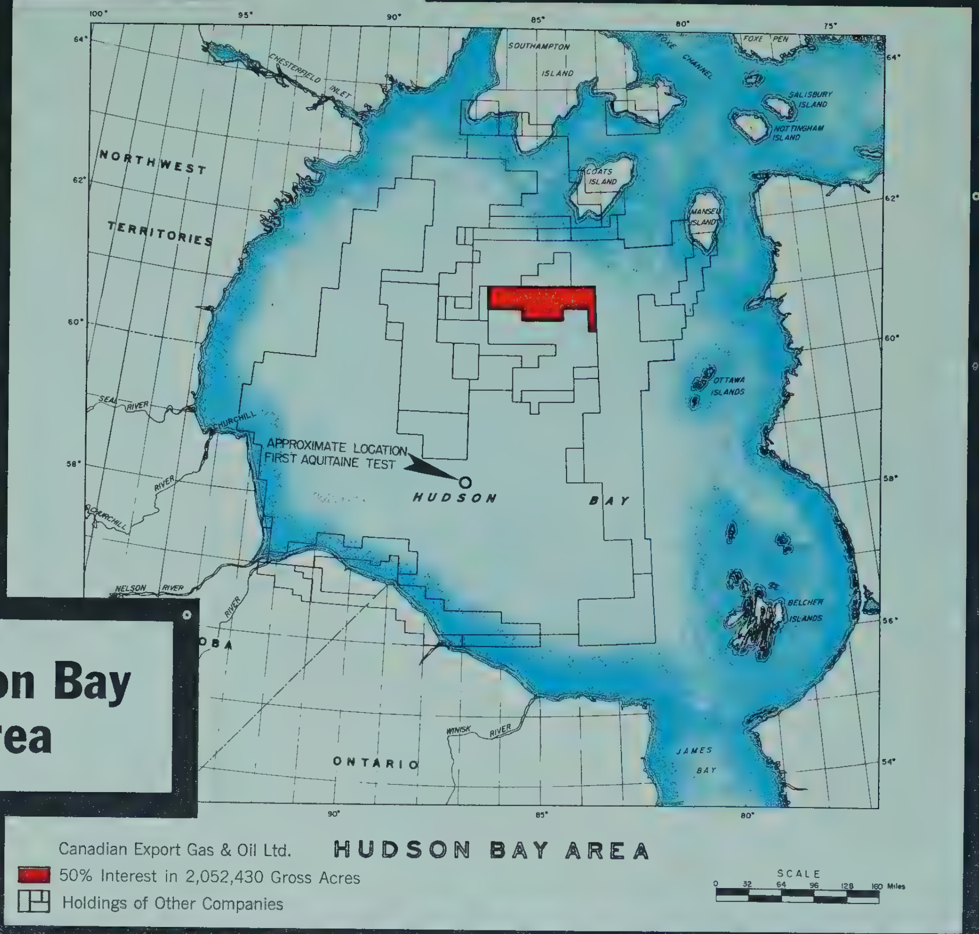
Baker Lake, N.W.T.

Three Prospecting Permits
Gross Acreage 494,205
CEGO INTEREST 33 1/3%

Artillery Lake, N.W.T.

Eighty-eight Mineral Claims
(approximately 4,500 acres)
CEGO INTEREST 100%

Hudson Bay Area



Canadian Export Gas & Oil Ltd. and Subsidiary Companies

CONDENSED STATEMENT OF EARNINGS

for the 3 months ended July 31

	1969	1968
Crude oil and natural gas sales, less royalties	$479,400	$500,000
Royalty income	47,700	35,500
Sulphur sales	11,000	–
	538,100	535,500
Production, administrative and general expenses	186,600	169,000
NET OPERATING PROFIT	351,500	366,500
Rentals, interest and miscellaneous – net	67,400	76,500
CASH FLOW	284,100	290,000
Dry holes and abandoned properties	1,600	64,600
NET EARNINGS BEFORE PROVISIONS	282,500	225,400
Provision for depletion and depreciation	129,500	140,400
NET EARNINGS before non-recurring gain	153,000	85,000
Non-recurring gain on sale of property	195,800	–
NET EARNINGS including non-recurring gain	$348,800	$ 85,000

The above statement has not been audited.

OIL AND GAS PRODUCTION (after Royalties)

	Quarter Ended July 31 1969	1968
Net Oil Production – Bbls.	118,136	108,837
Average per day – Bbls.	1,284	1,183
Net Gas Production – MMcf	1,209	1,492
Average per day – MMcf	13	16

INTERIM REPORT

JULY 31st-1969

CANADIAN EXPORT GAS & OIL LTD.
CEGO

LITHOGRAPHED IN CANADA

CANADIAN EXPORT GAS & OIL LTD.

TO THE SHAREHOLDERS:

Financial

For the three months ended July 31, 1969, the Company's gross income was $538,100, cash flow $284,100, both essentially the same as in the previous year. The increased net earnings to $348,800 were essentially due to a non-recurring gain of $195,800 and lower charges for abandonments.

Production

Oil production for the quarter increased to 118,136 barrels from 108,837 barrels in the comparable period last year, an increase of approximately 10%. This increase is due to the Zama and Virgo wells being put on steady production, as well as an increase in the production of condensate.

Gas production was 1.209 billion cubic feet, a decrease of approximately 20% from the 1.492 billion cubic feet for the comparable period last year. This decrease, due to a six week shut down period by Alberta Gas Trunk to recondition their existing lines in Southern Alberta, is expected to be compensated for by increased production during the ensuing quarterly period.

Exploration and Land

At July 31, the Company was participating in the drilling of three exploratory wells in the Strachan-Ricinus area. At the time of writing the report, two of the wells, Gulf et al Strachan 10-24-37-9 and Gulf et al Ricinus 7-28-36-8 had reached the Leduc formation at anticipated depth. However, these wells found the reef unproductive, indicating a structural separation from the previously completed successful reef wells. The 10-24 well is being suspended for possible later utilization as a disposal well when the plant now being constructed goes into operation.

Drilling at approximately 11,000 feet, the Amerada-Ricinus 10-34-36-9 well is continuing with approximately 2,000 feet remaining to reach its Leduc objective.

The Banff well in 6-25-36-10 off-setting Company interest acreage is drilling at approximately 12,000 feet also on its way to the Leduc reef objective.

Further development drilling to establish additional deliverability to satisfy the Trans Canada Pipe Lines contract is planned for the immediate future.

The 16-26 well mentioned in the annual report is continuing production testing of the Cardium.

Plans are being formulated for the drilling of seven wells during the next six months. Negotiations for the drilling of five tests this coming winter on a portion of the Northwest Alberta Company-interest acreage are being undertaken. One test in the Zama area and one in the Whitecourt area are also to be drilled. The Whitecourt well will be drilled at no cost to the Company.

In the Flatrock area, Northeast British Columbia, a well is currently drilling on a 7,680 acre drilling reservation in which the Company has a 5% interest.

A seismic contract has been let to survey the 220,000 acres in the Beaufort Sea offshore from the Mackenzie Delta in which the Company has a 50% interest. Severe ice conditions have held up completion of this work to date.

The first well in Hudson Bay started drilling in August. The Company has a 50% interest in 2,052,430 gross acres situated approximately 160 miles north of this well.

The mining company to whom CEGO's Artillery Lake mineral claims have been farmed out, has advised that nothing of interest has so far been indicated, but further diamond drilling is being undertaken.

The geophysical surveys of the Baker Lake area prospecting permits in the Northwest Territories have been delayed because of weather conditions.

On August 26th the Company made an announcement advising that two groups of oil and gas exploratory permits off the East Coast of Canada had been acquired. The Company purchased an undivided 50% interest in 951,167 gross acres. One group of permits consisting of 640,950 acres is located off the East Coast of Labrador up to 100 miles from the shore. The other, comprising 310,217 acres, is off the East Coast of Nova Scotia, within 50 miles of shore, and 50 to 100 miles from Halifax.

The Company has also acquired a 33⅓% interest in 645,047 acres of oil and gas exploratory permits in and around Great Bear Lake, 120 miles east of Norman Wells in the Northwest Territories.

Partial Redemption of Debentures

On June 27, 1969 in order to meet its sinking fund obligations, the Company called for redemption $84,000 of its 5% Convertible Sinking Fund Debentures, Series A, December 1, 1970. These debentures were issued under the Company's former name, Canadian Prospect Ltd. Holders of these debentures who have not seen the published notice of partial redemption are advised to contact their broker or the Company to ascertain whether their debentures have been called as interest ceased on August 1.

Corporate

At the Annual Meeting held on August 19, 1969 the following nine Directors were re-elected:

August F. Beck, Calgary
F. R. Burton, Toronto
John Drybrough, Winnipeg
Francis Kernan, New York
Plato Malozemoff, New York
Milton H. Mandel, New York
Francis E. Rinehart, New York
Franz Schneider, New York
H. W. Tripp, New York

At the subsequent Directors' meeting all officers were re-elected.

The Directors and Management wish to thank those shareholders who participated in the meeting, in person or by proxy, for their interest and support.

A. F. Beck

September 3, 1969. A. F. BECK, President.

CANADIAN EXPORT GAS & OIL LTD. AND SUBSIDIARIES

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended October 31		Six Months Ended October 31	
	1969	1968	1969	1968
Crude oil and natural gas sales, less royalties	$595,100	$519,200	$1,074,500	$1,019,200
Royalty income	41,700	46,800	89,400	82,300
Sulphur sales	11,100	26,200	22,100	26,200
	647,900	592,200	1,186,000	1,127,700
Production, administrative and general expenses	216,400	200,400	403,000	369,400
NET OPERATING PROFIT	431,500	391,800	783,000	758,300
Rentals, interest and miscellaneous — net	106,200	101,200	173,600	177,700
CASH FLOW	325,300	290,600	609,400	580,600
Dry holes and abandoned properties	62,800	87,800	64,400	152,400
NET EARNINGS BEFORE PROVISIONS	262,500	202,800	545,000	428,200
Provision for depletion and depreciation	142,500	148,800	272,000	289,200
NET EARNINGS before non-recurring gain	120,000	54,000	273,000	139,000
Non-recurring gain on sale of property	—	—	195,800	—
NET EARNINGS including non-recurring gain	$120,000	$ 54,000	$ 468,800	$ 139,000

The above statement has not been audited.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	Six Months Ended October 31	
	1969	1968
SOURCE OF FUNDS:		
Cash Flow	$609,400	$ 580,600
Proceeds from sale of property	200,000	—
Proceeds from sale of capital stock	19,900	434,100
Increase in long term debt	—	159,400
TOTAL FUNDS EMPLOYED	$829,300	$1,174,100
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$163,400	$ 541,900
Wildcat and stepout drilling	120,800	144,200
Development and Other Expenditures:		
Drilling and equipment of wells	83,300	197,100
Gas gathering systems, plants and miscellaneous — net	78,400	173,100
Long term debt reduction	181,800	—
TOTAL FUNDS USED	$627,700	$1,056,300
Increase in working capital	201,600	117,800
	$829,300	$1,174,100

ALCRAFT • CALGARY
LITHOGRAPHED IN CANADA

QUARTERLY REPORT

Six months ended October 31, 1969

CANADIAN EXPORT GAS & OIL LTD.
CEGO

CANADIAN EXPORT GAS & OIL LTD.

TO THE SHAREHOLDERS

Financial

CEGO's gross income for six months ended October 31 was $1,186,000 and cash flow was $609,000. Both figures were up 5% over the same period last year. Net earnings were $469,-000 including a non-recurring gain of $196,000, compared to $139,000 last year.

Production and Development

Oil production for the six month period increased 10% to 238,369 barrels from 216,578 barrels in the comparable period of last year.

Gas production for the six month period was 3.112 billion cubic feet essentially the same as last year.

The following tabulation shows the Company's oil and gas production for the six month period ended October 31, 1969, as compared to the same period in 1968. The production shown is net to the Company after deduction of royalties:

	Six Months Ended Oct. 31	
	1969	1968
Oil Production — Bbls.	238,369	216,578
Average per day — Bbls.	1,295	1,177
Gas Production — Bcf	3.112	3.117
Average per day — Mmcf	17	17

In the Bindloss gas unit two development wells were drilled and successfully completed in the second quarter. Both wells have been connected to the gathering system. Also two 440 horse-power compressors were installed at Bindloss and should be in full operation during the early part of the third quarter.

Gulf Oil, as operator of the Strachan gas field, in which CEGO has a 6¼% interest, has awarded a contract for construction of a major gas processing plant for completion in November 1970. The plant will have a preliminary design capacity of 250 million cubic feet per day of raw gas which is expected to produce daily 200 million cubic feet of residue gas, 830 long tons of sulphur and 5,340 barrels of condensate. The cost of the project including gas gathering and related facilities, is estimated at 20 million dollars.

Strachan 11-22-37-9W5, (CEGO interest 6¼%) a development well previously completed as a Leduc reef gas producer has been production tested and has indicated an absolute open flow of 100 million cubic feet per day.

Another Strachan well 11-28-37-9W5 (CEGO interest 6¼%) was spudded on October 17 one mile south of the 11-33 gas discovery. This well is being drilled to provide additional deliverability for the gas plant.

Exploration and Land

Announcement has been made of another Leduc reef gas discovery at Strachan by an adjoining acreage holder. This well, located in 6-25-36-10 is just ¾ mile from the nearest CEGO acreage.

The Amerada et al Ricinus 10-34-36-9 well on Company interest acreage four miles south of the Leduc reef gas pool at Strachan, has been abandoned as a dry hole. Drilling of this well completed the obligation of CEGO and partners to earn a 50% interest in an additional 7,680 acres (CEGO interest 6¼%) part of which is adjacent to the latest discovery mentioned above. Two other wells immediately offsetting Company acreage northwest and southeast of the Strachan field are being drilled with the Leduc reef as the objective.

In the general Whitecourt area of Central Alberta, the Company participated in the drilling of two exploratory wells, one of which was being drilled at no cost to the Company. Since the end of the report period both have been abandoned as dry holes.

At Virgo in Northwestern Alberta, a Company interest parcel of 160 acres was farmed out for the drilling of a Keg River test. The drilling of this well has been completed in the Keg River reef formation and it is currently undergoing production tests. CEGO's interest is 8⅓% gross overriding royalty until the Farmee recovers costs, at which time CEGO has the option to convert to a 16⅔% working interest.

The Company has recently acquired a 12½% interest in 140,500 gross acres of Petroleum and Natural Gas Reservations in the northwestern Foothills belt of Alberta. The lands lie in townships 62 to 64, ranges 10 to 14 W6 Meridian. Initial seismic work involving 80 miles of continuous profiling is scheduled for early commencement.

In the Trout Lake area, N.W.T., the Company will participate in the drilling of a test well with the Devonian reef as the objective, with options to acquire additional acreage. The test will be drilled this coming winter season and will earn CEGO 12½% interest in 38,000 lease acres. The area is adjacent to the North West Territories-British Columbia boundary, north of the Petitot-Kotcho productive gas trend.

An additional 216,304 acres of oil and gas exploratory permits were filed on in the Great Bear Lake area. Gross acreage in this block now amounts to 861,251 acres in which the Company has 33⅓% interest.

Geophysical surveys have now been completed on two of the three Baker Lake Prospecting permits comprising a total of 494,205 acres (CEGO interest 33⅓%). Results are now being compiled and interpreted. Further plans for the area will be determined from a study of the data.

A. F. Beck

A. F. Beck
President

November 28, 1969